

AR30



annual report 1974

brenda

BRENDA MINES LTD.

noranda group

BRENDA MINES LTD.

(Incorporated under the Companies Act, British Columbia)

REGISTERED OFFICE: The Mine Office, Brenda Mines Road, Out of Peachland, B.C.

DIRECTORS

[illegible]

OFFICERS

[illegible]

MINE OFFICE: P.O. Box 420, Peachland, B.C.

SOLICITORS: Davis & Company, 14th floor, 1030 West Georgia Street, Vancouver.

AUDITORS: Peat, Marwick, Mitchell & Co., Suite 2100, One Bentall Centre,
505 Burrard Street, Vancouver.

TRANSFER AGENT AND REGISTRAR: Canada Permanent Trust Company,
455 Granville Street, Vancouver, and
20 Eglinton Avenue W., Toronto, Ontario.

ANNUAL MEETING: May 1, 1975, 11:00 a.m., Hotel Vancouver, Vancouver, B.C.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Submitted herewith is the Annual Report together with the report of the auditors for the year ended December 31, 1974.

Earnings

Net earnings declined to \$8.4 million from a restated \$16.7 million in 1973. Gross revenue of \$43.0 million was essentially the same as that of 1973, the result of higher metal prices offsetting lower metal production. Earnings deteriorated in the second half due to lower copper prices, escalating operating costs and higher taxes. Operating costs were \$0.40 per ton milled higher than in 1973. Tax provision, including \$1.9 million for British Columbia mineral royalties, increased to \$6.8 million from \$1.8 million the previous year. Federal income tax provision was \$2.7 million, nil in 1973, when the taxable income was offset by capital cost allowances available from the tax-free period and these deductions were fully utilized in the first half of 1974. The 1973 earnings were adjusted to reflect a reduction in provincial mining tax derived from additional allowances in determining taxable profit.

Financial

During the year \$27.3 million of Secured Income Bonds were retired leaving a balance of \$2.5 million outstanding. The lower interest cost was more than offset by accelerated amortization of financial expense.

Metal Markets

Demand for metals continued to expand in the first half of 1974, resulting in supply shortages and rising prices. However, after mid-year, declining economic activity in the major industrial economies, particularly Japan and the United States, led to heavy inventories and lower prices for copper and some easing in demand for molybdenum.

Copper — Consumption in 1974 fell 6%, while production rose 3% and the final 200,000 tons were released from the United States stockpile. By the year end, the surplus had reached 500,000 tons, overseas prices on the London Metals Exchange had fallen from a peak of \$1.52 per pound in April to 56¢, and the major producing countries were either withholding shipments or cutting production.

The position is particularly serious in Japan where smelters have cut back operations by twenty to forty percent. In response to a request from Nippon Mining Company Limited, your company agreed to reduce concentrate shipments by fifteen per cent in the period from December, 1974 to the end of the five-year contract in May, 1975. In February your company received advice from Nippon Mining Company Limited that they are not prepared to continue the purchase of Brenda's copper concentrate following expiration of the contract. Alternative arrangements are being reviewed and Brenda is not considering any reduction in production.

Canadian prices rose from 74¢ per pound in January to 82½¢ by June, before declining to 63.375¢ late in January, 1975.

Molybdenum — Sales were 9.9 million pounds, compared to production of 7.6 million, which reduced the unsold inventory to 3.0 million pounds, an operating minimum.

Western World consumption increased 9% to 180 million pounds due to capacity operation by the steel and chemical industries. Production rose to 167 million and the United States stockpile was liquidated. Concentrate prices increased in four stages during the year to U.S. \$2.43 per pound of molybdenum contained in concentrate.

The outlook is for some reduction in demand, probably commencing in the second quarter, which will enable producers to rebuild stocks to adequate working levels.

The Operation and Taxes

Brenda is a most satisfying operation as the highly skilled work force and staff have made it efficient and they possess a co-operative desire to make it even better through progressive technological changes. The application of the British Columbia mineral royalties is disturbing, as the provision for these payments from revenue deprives the operation of much-needed capital for further improvements in production and metal recovery. It is appropriate to comment further on the incomprehensible high level of taxation on resource companies, as shareholders must assess the effect of the revolutionary tax policies relative to their equity.

During 1974 the British Columbia government passed legislation to impose royalties on certain designated metals produced in the province. These royalties are in addition to the 15% provincial tax on mining profits and are of two types. The first, or basic royalty is 5% (2½% for 1974 only) of the net smelter return from the designated minerals sold. The second or "super royalty" is 50% of the amount by which the selling price, less approved smelting and refining charges, exceeds 120% of a basic value for the mineral as established by the government from time to time. Both copper and molybdenum are designated metals.

As a result of the May 6 federal budget, neither the royalties, nor the 15% mining tax are deductible in arriving at federal and provincial income taxes payable. Thus we have a tax system where the governments skim the cream from the top during peak earning periods and let the mining companies bear the brunt during the less profitable times. The province has become the senior taxing jurisdiction. The objection to royalties is that they are charged against net revenue, having no regard for operating cost or profit. This forces high grading and changes low-grade ore to waste rock. With regard to metal prices, it becomes absurd when, for example, a 10¢ increase in the price for molybdenum sulfide over the current U.S. \$2.43 per pound, results in an increased tax of 10½¢, or a loss to the shareholder of ½¢ per pound. (Base royalty 5% = ½¢; super royalty 50% = 5¢; provincial mining tax 12.75% = 1.3¢; provincial/federal income tax 37% = 3.7¢.) Based on forecast metal prices, Brenda is projecting a total tax burden for 1975 which exceeds 100% of income before taxes.

It is to be hoped that the serious impact of the legislation, not only on profits but on the future development of mineral resources within the province, will be recognized and the present law, which amounts to confiscation of the company's earnings, will be radically modified. Each individual shareholder may help by expressing his objections and views to his political representative.

Mr. Richard V. Porritt retired as Executive Vice-President and Director following the year end. Mr. Porritt's long experience in business and mining provided invaluable skills and wisdom to the affairs of the company. His fellow directors extend their warmest wishes and record their real appreciation of his contribution. Mr. William James, Executive Vice-President, Noranda Mines Limited, replaced him as director.

The directors express their appreciation to the staff and employees for their splendid operating performance throughout the year.

On behalf of the Board,

John A. Hall

President.

Toronto, Ontario,
February 12, 1975.

GENERAL MANAGER'S REPORT

To the President and Directors:

Submitted herewith is my report of operations during the year ended December 31, 1974.

Operations		1974	1973
Waste stripped	— Tons	2,749,800	4,494,300
Low-grade ore stockpiled	— Tons	4,411,800	2,862,800
Ore milled	— Tons	9,549,588	8,867,800
Ore milled per calendar day	— Tons	26,163	24,295
Ore milled per operating day	— Tons	26,163	27,454
Copper grade	— % Cu	0.186	0.203
Copper recovery	— %	85.88	89.06
Molybdenum grade	— % Mo	0.051	0.058
Molybdenum recovery	— %	78.48	81.74
Copper concentrate produced	— Tons	51,365	58,842
Copper concentrate grade	— % Cu	29.74	27.25
Molybdenum concentrate produced	— Tons	6,811	7,373
Molybdenum concentrate grade	— % Mo	56.10	56.60

Open Pit

Mining operations during 1974 were routine and consisted of both deepening and expanding the pit. Increased uphill haulage and delayed deliveries of parts and supplies for pit equipment restricted production and contributed to the decline in productivity to 829 tons per manshift from 917 tons in 1973.

A study of Pit Slope Stability was begun. The data from this study will be used for pit design purposes with the objective of extracting maximum reserves of ore under safe operating conditions.

During 1974 9,549,600 tons of ore were milled and 9,771,000 were mined. Ore reserves at year-end were 127,000,000 tons with an average grade of 0.177% copper and 0.046% molybdenum. It is expected that the ore mined during 1975 will have an average grade of 0.175% copper and 0.050% molybdenum.

Concentrator

The relatively uninterrupted operation of the concentrator throughout 1974 resulted in a record annual tonnage treated.

Operations were hampered severely on occasion by shortages of operating supplies, the most important of which were grinding balls and one flotation reagent. These shortages were the major reason for significantly lower metal recoveries and also contributed to the reduced daily operating rates.

Investigations of computer-assisted operation of the grinding circuit were carried out during 1974. Indications are favourable for a successful application of the control system which has been developed.

The molybdenum leaching plant was operated successfully throughout the year. Interest is being shown by several companies in this Brenda patented process which may lead to their licensing of the system.

Improvement to dust collecting facilities was delayed due to late deliveries of new equipment. Installation is scheduled for completion during the first quarter of 1975.

General

The plantsite reclamation program continued and an additional 45 acres was seeded. Growth in all areas of permanent reclamation is proceeding satisfactorily. A test planting was made on a slope of a waste dump and evaluation of the methods used in this test will be made during 1975.

The Collective Agreement with Local 7618, United Steelworkers of America was revised on February 7, 1974 when an unscheduled wage increase of 10% was introduced and the life of the agreement was extended for an additional five months to September 11, 1975. Under terms of the original agreement, further increases of 5% and 2% were granted in April and October, 1974 respectively.

The work force at December 31 consisted of 314 hourly rated employees and 119 staff. Wages, salaries, and benefits paid on behalf of personnel during 1974 were \$6,319,000 which is an increase of \$1,720,000 over 1973. The 1973 total was low as the result of a work stoppage which lasted 41 days.

I wish to record my appreciation to the staff and all employees for their support during the year, and ask for their wholehearted assistance in the difficult period in which we are now involved.

Respectfully submitted,

Peachland, B.C.,
February 12, 1975.

G. H. MONTGOMERY, P.Eng.,
Vice-President and General Manager.

BRENDA MINES LTD.

BALANCE SHEET — December 31, 1974 (With comparative figures for 1973)

ASSETS		
	1974	1973
Current assets:		
Short-term deposits	\$ 440,000	—
Accounts receivable (\$372,827 due from an affiliate, 1973 — \$6,088,943)	1,797,233	7,898,178
Inventories of concentrates and stores (Note 1)	10,043,651	18,022,262
Prepaid expenses	98,976	67,153
Total current assets	12,379,860	25,987,593
Property, buildings and equipment (Notes 1 and 2)	33,569,654	35,854,778
Other assets:		
Financing expense less amortization (Note 1)	222,905	2,657,029
Refundable power and other deposits	645,000	865,000
	867,905	3,522,029
	<u>\$46,817,419</u>	<u>65,364,400</u>

See accompanying notes to financial statements.

AUDITORS' REPORT

We have examined the balance sheet of Brenda Mines Ltd. as of December 31, 1974 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Vancouver, British Columbia,
January 20, 1975.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
Current liabilities:		
Bank overdraft	\$ 532,506	192,696
Accounts payable (due to affiliates \$815,414, 1973 — \$3,350,823) ..	3,006,428	6,350,634
Taxes payable	480,000	339,741
Total current liabilities	4,018,934	6,883,071
Long-term debt (Note 3)	2,622,170	29,923,846
Taxes provided but not currently payable (Note 1)	4,546,656	1,322,804
Shareholders' equity:		
Capital stock:		
Authorized 5,000,000 shares without nominal or par value; issued 4,282,000 shares	8,217,998	8,217,998
Retained earnings, per accompanying statement	27,411,661	19,016,681
Total shareholders' equity	35,629,659	27,234,679
On behalf of the Board:		
BERNARD O. BRYNELSEN, Director.		
JOHN A. HALL, Director.		
	<u>\$46,817,419</u>	<u>65,364,400</u>

THE SHAREHOLDERS

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1974 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.

STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1974 (With comparative figures for 1973)

	1974	1973
Gross value of concentrates produced	\$42,917,365	43,074,449
Less smelter and transportation charges	1,911,466	2,115,995
	41,005,899	40,958,454
Cost of concentrate production	16,775,501	12,156,080
Administration, selling and general expense	1,090,014	801,703
Municipal and sundry taxes	719,015	542,742
Depreciation and depletion (Note 1)	4,039,791	3,677,592
Preproduction expenditure written off	—	1,438,074
	22,624,321	18,616,191
Operating income	18,381,578	22,342,263
Interest on long-term debt	985,781	3,661,827
Financing expense written off (Note 1)	2,434,124	664,259
	3,419,905	4,326,086
Deduct other income	277,159	512,423
	3,142,746	3,813,663
Income before income and production taxes	15,238,832	18,528,600
Income and production taxes:		
Income taxes	4,953,852	1,793,595
British Columbia mining royalties	1,890,000	—
	6,843,852	1,793,595
Net earnings for the year	\$ 8,394,980	16,735,005
Earnings per share	\$1.96	3.91

STATEMENT OF RETAINED EARNINGS

	1974	1973
Balance at beginning of year:		
As previously reported	\$19,016,681	2,165,559
Adjustment of mining taxes of prior periods (Note 4)	—	116,117
As restated	19,016,681	2,281,676
Net earnings for the year (Note 4)	8,394,980	16,735,005
Retained earnings at end of year	\$27,411,661	19,016,681

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1974 (With comparative figures for 1973)

	1974	1973
Working capital at beginning of year	\$19,104,522	2,806,964
Source of funds:		
Operations:		
Net earnings for the year	8,394,980	16,735,005
Add (deduct) items not involving funds during the year:		
Depreciation, depletion and amortization	6,473,915	5,779,925
Taxes provided but not currently payable	3,223,852	1,322,804
Other	16,326	314,718
Foreign exchange gain	—	(491,579)
Total from operations	18,109,073	23,660,873
Reduction in power and other deposits	220,000	215,000
	18,329,073	23,875,873
Application of funds:		
Purchase of fixed assets (less proceeds \$8,761; 1973 — \$87,099) ..	1,770,993	571,686
Reduction in long-term debt	27,301,676	7,006,629
	29,072,669	7,578,315
Increase (decrease)	(10,743,596)	16,297,558
Working capital at end of year	\$ 8,360,926	19,104,522

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1974

1. ACCOUNTING POLICIES:

Foreign currencies:

Current assets in United States currency have been converted into Canadian dollars at the rate of exchange in effect at December 31, 1974.

Inventories:

Copper and molybdenum concentrates are valued at estimated realizable value. Stores are valued at lower of cost or replacement cost.

Depreciation and amortization:

Depreciation of property, buildings and equipment is based on the estimated service lives of the assets calculated using the straight line method. Additions, betterments and renewals are capitalized and expenditures for maintenance and repairs are charged to expense. When depreciable assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

Mineral claims and leases are being depleted over fifteen years.

Financing expense is being amortized over the expected term of the related long-term debt.

Taxes on income:

The company follows tax allocation procedures in recording charges for taxes on income. Taxes not currently payable, as a result of claiming for tax purposes amounts different from those recorded in the accounts (mainly depreciation), are charged against current earnings.

2. DETAILS OF PROPERTY, BUILDINGS AND EQUIPMENT, AT COST, ARE AS FOLLOWS:

	1974	1973
Buildings, equipment and related facilities	\$43,054,579	41,900,817
Mobile equipment	7,193,941	6,609,240
Residential land and buildings	215,714	215,714
	50,464,234	48,725,771
Less accumulated depreciation	17,130,770	13,130,245
	33,333,464	35,595,526
Mineral claims and leases, at cost less depletion	236,190	259,252
	<u>\$33,569,654</u>	<u>35,854,778</u>

3. LONG-TERM DEBT:

	1974	1973
7.2% secured income bonds, repayable out of cash flow, as defined, due December 31, 1977 to an affiliated company	\$ 2,500,000	29,800,000
Liability payable when the secured income bonds have been retired ..	50,000	50,000
Mortgage payable	72,170	73,846
	<u>\$ 2,622,170</u>	<u>29,923,846</u>

The bonds outstanding are secured by a first fixed and floating charge on the assets of the company. Among other things, the trust deed securing the bonds prohibits the payment of dividends until the bonds and accrued interest thereon have been paid in full.

4. ADJUSTMENT OF MINING TAXES OF PRIOR PERIODS:

The results of 1973 and prior years have been restated by a refund in respect of prior years' mining taxes of \$1,295,533, derived from additional allowances in determining taxable profits.

5. ADMINISTRATION EXPENSE:

The aggregate direct remuneration paid to the directors and senior officers of the company, as defined by the B.C. Companies Act, amounted to \$143,042 (1973 — \$113,390).
